

GAO



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National Defense

NATO-Warsaw Pact: Assessment of the Conventional Force Balance

Acc. Nos. 137549, 137552, 137553 (GAO/NSIAD-89-23, 23A, and 23B),
Dec. 13.

The North Atlantic Treaty Organization's peacetime deterrent position is good, and its conventional capabilities have improved over the last decade but they should be better says the Conventional Defense Study Group. It discussed the many factors NATO's success or failure would depend on and concluded that neither side has such an overwhelming advantage that victory is assured for one or the other. Although most scenarios favor the Warsaw Pact as the victor rather than NATO, group participants believed that Warsaw Pact forces might not have a substantial advantage in manpower or division strength in a short-preparation or medium warning attack. Some suggested solutions to improving NATO's conventional capabilities include the following: (1) encouraging Europeans to assume greater responsibility for their defense, such as creating physical barriers to delay a Warsaw Pact advance; (2) increasing emphasis on conventional war-fighting in NATO planning; (3) using "dumb" weapons to conserve limited stocks of "smart" munitions; and (4) using arms control measures, either reciprocal or negotiated, to reduce troop size.

Defense Management: Status of Recommendations by Blue Ribbon Commission on Defense Management

GAO/NSIAD-89-19FS, Nov. 4.

Some action has been taken on most of the recommendations made by the President's Blue Ribbon Commission on Defense Management (Packard Commission), although little or no action has been taken on others. Specifically, (1) the National Security Council provided a single budget level, instead of provisional budget levels, in the presidential guidance to the Secretary of Defense; (2) no changes have been made to reduce the redundancy among congressional committees reviewing the defense budget or the number of reports Congress requests from the Department of Defense; and (3) the 5-year defense guidance did not include budgets with an operationally oriented structure. It is still too early to assess the actual effect of most of the actions taken.

**Weapons Cost:
Analysis of Major Weapon
Systems Cost and Quantity
Changes**

GAO/NSIAD-89-32FS, Nov. 30.

For the three armed services, the combined total program cost estimate (in current dollars) for all of the systems was \$751.6 billion, representing an increase of approximately \$216.8 billion over the base year estimates for these programs. This fact sheet provides updates on the status of acquisition programs within the Department of Defense, using information from DOD's Selected Acquisition Reports.

**Stars and Stripes:
Inherent Conflicts Lead to
Allegations of Military
Censorship**

Acc. No. 137550 (GAO/NSIAD-89-60), Dec. 14.

The inherent cultural and institutional conflicts that exist between civilian journalists who must execute the First Amendment mission and commanders who must execute the military mission have lead to allegations of censorship at Stars and Stripes. According to a panel formed by the Society of Professional Journalists, evidence of censorship and inappropriate news management was conclusive at the Pacific Stars and Stripes but inconclusive at the European paper. Military commanders and their representatives in both theaters have repeatedly attempted to influence the reporting of news. In order to improve the situation, GAO recommended guidance be developed that allows the paper to have (1) a civilian editor in chief whose term of office shall be a fixed period of 3 to 5 years and (2) editorial and news policy provisions that emphasize subjects of interest to the readership.

**CPA Audit Quality:
Arthur Young and
Company's Work at Bell
Helicopter Textron, Inc.**

GAO/AFMD-89-6, Dec. 19.

Although the Defense Contract Audit Agency reported significant accounting and internal control problems at Bell Helicopter Textron, Inc. on individual government contracts, Arthur Young and Company concluded that these problems would not materially affect Textron, Inc.'s financial statements. According to DCAA, these problems included (1) commingling of government and commercial inventories and poor inventory cost control, (2) alleged excess profits on government contracts, and (3) alleged inaccuracies in a special liability account for amounts Bell calculated it owed the government on certain contracts. Arthur Young's audit work at Bell for the years 1982 through 1985 included adequate consideration and evaluation of the accounting and internal control problems that DCAA reported.

**Unmanned Vehicles:
Assessment of DOD's
Unmanned Aerial Vehicle
Master Plan**

GAO/NSIAD-89-41BR, Dec. 9.

Congressional committees concerned about duplication in the services Unmanned Aerial Vehicle programs consolidated these efforts into a joint program located in the Office of the Secretary of Defense. The Department of Defense's UAV Master Plan offers promise of achieving some commonality in service UAVs by providing for an affordable family of systems that will be operated by all services. UAVs are pilotless aircraft resembling small airplanes or helicopters that are being developed to accomplish several military functions, such as surveillance of enemy activities, relay of friendly communications, or attack of enemy radars. However, the Master Plan has some limitations, such as (1) it does not include lethal UAVs and target drone programs and (2) its inattention to potential duplication between UAVs and manned aircraft, which perform the same or similar missions.

**Ammunition and
Explosives:
Improved Controls Are
Needed to Reduce Thefts
at Fort Bragg and Camp
Pendleton**

GAO/NSIAD-89-3, Nov. 22.

Military munitions include some very destructive devices, such as C-4 plastic explosive, anti-personnel mines, and fragmentation grenades. Combat gear includes helmets, bayonets, and gas masks. If not properly protected, these items are subject to pilferage due to their size and availability and the market for them. Concerns were raised about major thefts of ammunition and explosives and combat gear at Camp Pendleton, California. Similarly, Fort Bragg, North Carolina, after experiencing several thefts of A&E, has also improved controls over these items. At both bases controls include procedures for storing and handling A&E and monitoring compliance with policies and procedures, as well as physical security measures. Generally, the appropriate A&E procedures are followed and provide a substantial measure of control at Camp Pendleton; however, some A&E are still being stolen and further improvements in controls are necessary. Although Fort Bragg has improved its A&E controls, opportunities still exist for improvement.

**Federal Productivity:
DOD's Experience in
Contracting Out
Commercially Available
Activities**

GAO/GGD-89-6, Nov. 28.

Office of Management and Budget Circular A-76, "Performance of Commercial Activities" provides the process for deciding whether to contract with the private sector for commercial activities or continue having federal workers provide them. Department of Defense A-76 cost studies often have been time-consuming, difficult, disruptive, and

threatening to activity managers and employees. However, DOD's implementation of A-76 increased competition between contractors and federal employees and resulted in a DOD-estimated \$613 million annual savings.

**Audit Resolution:
DOD's Policy Can Be
Strengthened**

GAO/AFMD-89-8, Dec. 16.

Department of Defense Directive 7650.3 generally contains sound policy requirements for correcting the problems found by its auditors. However, GAO believes that directive could be more definitive regarding (1) the auditor's role in reviewing and commenting on management's plans and schedules to implement audit recommendations, (2) the types of follow-up reviews that needed, (3) reports of delays to top management, and (4) the extent of records needed to substantiate the completion of corrective actions.

**Army Procurement:
Allegations of Unfair
Treatment at Fort Lee,
Virginia, Found to Be
Unmerited**

Acc. No. 137457 (GAO/NSIAD-89-46), Dec. 6.

Allegations of unfair treatment by the Army's contracting office at Fort Lee, Virginia, were made by a company that responded to the solicitation for support services. The company complained that (1) its low and technically acceptable offer should have been the one that Fort Lee officials compared to the government's estimates and (2) the solicitation should not have been reopened after the Army discovered that ambiguous instructions had been provided to the offerors and nullified the results. GAO found no indication that Fort Lee's treatment of the company was unfair or different from its treatment of any other offeror. Furthermore, Fort Lee officials acted within the authority granted by the Federal Acquisition Regulation in amending and reopening the solicitation.

**Light Helicopter Program:
Risks Facing the Program
Raise Doubts About the
Army's Acquisition
Strategy**

GAO/NSIAD-89-72, Dec. 23.

The Army's Light Helicopter Program is intended to be a lightweight helicopter capable of performing multiple missions against advanced enemy air defenses of the 1990s. After a series of cost and weight increases, the Army significantly scaled the program back. Even with these changes, the program faces considerable risks, including (1) significant technical hurdles, particularly regarding the LHX's mission equipment; (2) indications that the weight goal will not be met; and (3) the

likelihood of increasing costs. To lower LHX research and development costs, the Army has chosen an acquisition strategy that eliminates the test and evaluation of competitive prototypes before selecting a winning contractor team and entering full-scale development. This strategy runs counter to Department of Defense acquisition guidance and it may not provide for the adequate resolution of program risks and validation of cost estimates in time for key decisions.

**Navy Maintenance:
Implementing the
Commercial Industrial
Services Program at San
Diego**

Acc. No. 137448 (GAO/NSIAD-89-18), Dec. 2.

The Supervisor of Shipbuilding, Conversion, and Repair in San Diego, California, is implementing the Commercial Industrial Services program generally in accordance with Navy policy and regulations. CIS uses private contractors to (1) accomplish intermediate level ship work that is beyond the capacity, but within the capability, of fleet intermediate maintenance activities and (2) reduce ship personnel working hours by doing certain categories of organizational maintenance generally done by a ship's crew. Other CIS programs are being operated and managed in a similar manner on the West Coast.

**Navy Engineering Centers:
Proposal to Change From
Industrial Funding to
Another Funding Method**

Acc. No. 137485 (GAO/NSIAD-89-47), Dec. 7.

The Department of Defense has not performed an analysis to support its contention that research and engineering activities should be taken out of the Navy's industrial fund and converted to another funding method. Its arguments that (1) an industrial fund accounting and financial management system is more costly to operate than other types of systems has not been demonstrated and (2) congressional oversight of activities' funds is lost is not persuasive in view of the more detailed reporting of cost data now required. Also, the conversion process would be disruptive to ongoing operations and is estimated to cost in excess of \$30 million. There is no advantage to converting the Navy research and engineering activities to another funding method at this time.

**Computer Systems:
Navy Needs to Assess Less
Costly Ways to Implement
Its Stock Point System**

Acc. No. 137547 (GAO/IMTEC-89-2), Dec. 14.

The Navy's Stock Point Automated Data Processing Replacement project is intended to improve supply operations by replacing the current computer systems with new hardware and software at a cost of \$2.3 billion over the systems' 24-year life. Although the cost of implementing and

operating SPAR could potentially be reduced by using fewer host systems than planned, the Navy has not yet studied alternative host/satellite configurations. Department of Defense oversight will be important in ensuring that reasonable compromises—in terms of cost, benefits, and operational needs—are made and cost effective alternatives are pursued.

**Industrial Funds:
Proposal to Change
Funding at Naval Civil
Engineering Laboratory**

Acc. No. 137602 (GAO/NSIAD-89-65), Dec. 23.

The Department of Defense's proposal to convert the funding for the Naval Civil Engineering Laboratory at Port Hueneme, California, from industrial funding to another funding method is part of a larger initiative. NCEL is the Navy's principal research, development, test, and evaluation center for shore facilities, fixed surface and subsurface ocean facilities, and Navy and Marine Corps construction forces. GAO found no evidence that DOD's proposal to convert from industrial funding to an alternative funding method is advantageous.

**Attack Warning:
NORAD's Communications
System Segment
Replacement Program
Should Be Reassessed**

Acc. No. 137456 (GAO/IMTEC-89-1), Nov. 30.

The North American Aerospace Defense Command, located at Cheyenne Mountain Air Force Station, is responsible for warning the United States and Canadian leaders that North America is under air, missile, or space attack. The Air Force has been developing a replacement for NORAD's communications computer system, and it expects to spend about \$281 million on this program—about \$72 million for block I and \$209 million for block II. Block I of the replacement system has experienced significant schedule and performance problems, such as the inability to meet the requirement for the unit to restore full mission capability within 26 minutes after a total loss of power, and the incompatibility of the unit with other computer equipment due to the wiring standard. These problems have pushed the planned installation date from 1986 to 1999. The Air Force intends to have the contractor correct the deficiencies during block II development. In the meantime, the Air Force plans to upgrade its Communications System Segment to meet NORAD's needs through 1995.

**Air Force Contracting:
Allegations Concerning
Procurement of a
Centrifuge Trainer**

GAO/NSIAD-89-50, Dec. 5.

Allegations were made by KRUG International concerning the Air Force's solicitation for the procurement of a centrifuge trainer, a device used to test and measure the effect of the force of gravity on pilots. KRUG alleged the following: (1) the sale of the centrifuge trainer to the Air Force by the Environmental Tectonics Corporation might be inconsistent with the purpose of the Foreign Military Sales assistance programs under the Arms Export Control Act, since the trainer was originally manufactured for the government of Turkey; (2) the Air Force assisted the company in obtaining the release of the centrifuge from Turkey; (3) the trainer was operated for some period of time for purposes other than qualification testing; and (4) a contractor that bid lower than ETC was not awarded the contract, even though it met the terms and conditions of the solicitation. GAO found that the KRUG allegations were without merit.

**Contract Pricing:
Material Prices Overstated
on AN/APG-68 Radar
Production Buys**

Acc. No. 137558 (GAO/NSIAD-89-33), Dec. 15.

A contract awarded by the Air Force Aeronautical Systems Division to Westinghouse Electric Corporation's Defense and Electronics Center in Baltimore, Maryland, for the production of the AN/APG-68 radar systems was overstated by \$254,399, including overhead and profit. The overstatement occurred because Westinghouse did not disclose actual purchase prices for two parts and made an error in pricing another part. GAO recommends that the Commander, Aeronautical Systems Division initiate action to recover the amounts by which the contracts were overstated.

**NATO Air Defenses:
Higher Funding Priorities
Delay Some Initiatives for
U.S. Bases in Europe**

GAO/NSIAD-89-36, Nov. 18.

The goal of the Air Force's air base operability program is to provide base commanders with the capability to destroy attacking enemy air and ground forces, limit damage to air bases, and survive, recover, and continue to operate while under attack or post-attack conditions. GAO found that U.S. Air Forces in Europe has programs that have begun to identify and, to a lesser extent, correct ABO problems at both its main and collocated operating bases. Effectiveness of the programs is questionable due to the reallocations of funds from the ABO program to other, higher priority USAFE programs.

International Affairs

International Trade: Pursuit of Trade Remedies by Small Business

Acc. No. 137572 (GAO/NSIAD-89-69BR), Dec. 1.

The costs for small businesses of seeking relief from foreign trade practices under seven statutory remedies vary greatly depending on the remedy pursued and the nature of the specific case. Opinions vary among trade lawyers, officials from agencies administering the remedies, and representatives from trade associations representing small business about whether small firms can generate the information and resources to pursue such relief effectively. The Trade Remedy Assistance Center, now call the Trade Remedy Assistance Office, has provided limited legal and technical assistance to small businesses. The costs and benefits of either providing direct legal assistance to small firms or reimbursing their legal expenses cannot be readily quantified. Legal ethics concerns need to be resolved before the direct legal assistance option is pursued.

Foreign Investment: Foreign Hostile Takeovers of U.S. Firms

GAO/NSIAD-89-80FS, Dec. 15.

Foreign hostile takeovers of U.S. firms is fairly small—only 17 completed takeovers out of 25 attempts over the past 4-1/2 years. Of these takeovers, 14 of 17 had approximate values of \$450 million or more, and 7 were valued at over \$1 billion. British firms were most active, accounting for 8 of the 17 takeovers. Foreign hostile takeovers have occurred in a variety of industry sectors, with no particular pattern apparent.

Science, Space, and Technology

Civil Space: NASA's Strategic Planning Process

GAO/NSIAD-89-30BR, Nov. 30.

The National Aeronautics and Space Administration needs to improve its strategic planning, a structured, ongoing process that systematically identifies an organization's mission and establishes goals and objectives. Although strategic planning has not yet been fully implemented throughout the agency, progress has been made. Such a plan would help focus attention on the fundamental questions of what NASA should be

doing and how best to accomplish it, encourage longer-term and more realistic multiyear financial planning of an appropriate mix and pace of programs, and help ensure its overall efforts are affordable and balanced, given civil space priorities.

**Space Shuttle:
External Tank
Procurement Does Not
Comply With Competition
in Contracting Act**

GAO/NSIAD-89-62, Dec. 28.

The National Aeronautics and Space Administration has not justified the sole-source procurement for space shuttle advanced solid rocket motors as prescribed by the Competition in Contracting Act. NASA's requirements for the parts and materials and the actual fabrication of the external fuel tanks have changed significantly since 1982. These changed circumstances raise questions as to whether NASA could justify at this time the use of noncompetitive procedures for these goods and services.

**Space Shuttle:
Readiness of the
Transoceanic Abort
Landing Sites**

GAO/NSIAD-89-22, Dec. 16.

As part of its space shuttle mission support activities, the National Aeronautics and Space Administration has designated transoceanic and emergency landing sites in the event of a contingency. NASA defines contingency as "...an operational event requiring termination of a pre-launch, flight, or landing operation...." Transoceanic Abort Landing site readiness includes preparing and equipping the sites and arranging for support personnel, security, medical, and crash, fire, and rescue services. The four current sites are Ben Guerir, Morocco; Moron Air Base, Spain; Zaragoza Air Base, Spain; and Banjul, The Gambia. The results of the Operational Readiness Inspections, as well as GAO discussions with agency officials, examinations of pertinent documentation, and visits to TAL sites, indicate that the sites would be ready to support space shuttle missions.

Energy

Nuclear Security: DOE Actions to Improve the Personnel Clearance Program

GAO/RCED-89-34, Nov. 9.

GAO recommended that the Department of Energy make changes to its personnel security clearance program by improving timeliness, accuracy, and efficiency of security clearance decisions. DOE is either initiating action or is studying ways to improve its personnel security clearance program, but none of the recommendations has been completely implemented. To reduce the deficiencies in DOE contractor performance of pre-employment investigations, the agency has in progress internal evaluations of how to improve compliance requirements and how to expedite the decisionmaking process for security clearance. DOE issued revised guidance that defines and explains how to implement the need-to-know principle, which requires that classified information be given only to persons who can justify their need for it.

Nuclear Science: Usefulness of Space Power Research to Ground-Based Nuclear Reactor Systems

Acc. No. 137492 (GAO/RCED-89-17), Dec. 6.

The Department of Energy adjusted its nuclear reactor research and development efforts in the mid-1980s to meet the growing need for nuclear power in potential civil and military space missions. A survey of 139 experts in space and terrestrial (land-based) nuclear power systems shows that the knowledge gained from DOE's research is expected to be useful to advanced liquid metal- and gas-cooled terrestrial reactor development. Knowledge gained in generic areas, such as reactor instrumentation and control, may also be useful for improving water-cooled systems. However, some potential benefits may have limited applicability and the extent to which some benefits will be realized will depend on how various constraints to using this technology, such as restrictions on information dissemination, are handled.

Natural Resources and Environment

Hazardous Waste: the Cost and Availability of Pollution Insurance

GAO/PEMD-89-6, Oct. 28.

Regulations issued under the Resource Conservation and Recovery Act require owners and operators of facilities managing hazardous waste to demonstrate their financial ability to compensate a third party for property damage or bodily injury. Pollution liability insurance is used most frequently to demonstrate this. Hazardous waste owners and operators are now relying much more heavily on their own assets to pay for damages and less on insurance, since the average premium has increased to as much as 11 times its 1982 level. Insurance contracts have become more limited in their coverage and in some cases provide no real protection to operators from financial losses arising from pollution damage. Without additional data on actual losses sustained by the insurance companies, GAO cannot assess the reasonableness of the industry's reluctance to underwrite this form of coverage or of its ratesetting practices.

Air Pollution: EPA's Ozone Policy Is a Positive Step but Needs More Legal Authority

GAO/RCED-89-28, Nov. 23.

The 1977 amendments to the Clean Air Act gave states and localities 10 years to meet the national ozone standard, but many areas were unable to meet the final deadline of December 31, 1987. Over the last year Congress has been considering various legislative proposals to address this situation but has not agreed on a solution. In the interim, the Environmental Protection Agency proposed a policy that (1) extends the attainment deadlines for meeting the ozone standard, (2) requires areas to submit revised plans, (3) requires a minimum 3-percent annual reduction in hydrocarbon emissions, and (4) outlines economic sanctions to be applied if areas do not develop or implement their plans. While EPA's proposed policy is a positive step towards addressing the ozone problem, it does not currently have the proper legal authority to implement it. If the Clean Air Act were amended to provide the agency with sufficient authority, several features of the proposed policy would help reduce the recurrence of problems.

Agriculture

Crop Insurance: FCIC Should Strengthen Actual Production History Program Controls

Acc. No. 137575 (GAO/RCED-89-19), Dec. 15.

The Federal Crop Insurance Corporation does not have adequate procedures to ensure that production guarantees established under the Actual Production History Program are accurate. APH's purpose is to base a farmer's insurance coverage on his or her individual production experience. Initial FCIC reviews of selected APH guarantees indicated that they may be incorrect as much as 37 percent of the time. Most of the errors found by FCIC related the accuracy of a farmer's individual production history data which he or she certifies without providing actual production history data the time a policy is written. FCIC currently relies on reinsured companies to detect errors in APH guarantees primarily through a sampling program in which selected guarantees are reviewed for accuracy. However, the accuracy of production guarantees is not always checked when a claim is made and paid; thus, incorrectly certified production data may never be identified, which could result in incorrect loss payments. Development of guidance for interpreting the results of the sampling and a routine review of the sampling results of the reinsured companies by FCIC to assure that such sampling is being done is needed to strengthen the APH program.

Financial Audit: Farmers Home Administration's Losses Have Increased Significantly

GAO/AFMD-89-20, Dec. 20.

The financial condition at Farmers Home Administration has deteriorated significantly for the following reasons: (1) FmHA lends money at interest rates far below what it must pay; (2) many of its borrowers are, by commercial standards, not creditworthy; (3) a severe decline in the agricultural economy over the past several years has led to congressional initiatives aimed at keeping farmers in business; and (4) many of the loans are delinquent and unlikely to repaid. Because of its operating losses, accumulated deficit of \$36 billion, and present reliance on Treasury borrowings to continue operations, FmHA will require direct assistance from Congress at levels much greater than Congress has provided in the past.

**Financial Audit:
Rural Electrification
Administration's Financial
Statements for 1987**

GAO/RCED-89-21, Dec. 23.

The Rural Electrification Administration maintains one general fund and three revolving funds to assist in financing electric and telephone organizations serving rural areas. GAO had restrictions on the scope of its examination, which limited its opinion to REA's statement of financial position as of September 30, 1987. REA had no material weaknesses in its internal accounting controls and was in compliance with laws and regulations.

**Patronage Refunds:
Rural Telephone Bank's
and Other Cooperatives'
Methods to Refund
Earnings**

GAO/AFMD-89-27, Dec. 30.

GAO was asked to review whether the Rural Electrification Act specifies a method the Rural Telephone Bank must use to refund any earnings to its class B stockholders. The Rural Telephone Bank's program objective is to obtain funds through the sale of stock and debentures to supplement the Rural Electrification Administration's telephone loan program and to make loans to providers of telephone service in rural areas. GAO concluded that patronage refunds, representing annual earnings after payment of cash dividends to class A and C stock, may only be distributed in the form of additional class B stock. Unless Congress amends RTB's authorizing legislation, no authority exists for RTB to pay cash dividends to class B stockholders, and no class B stock can be redeemed for cash prior to the redemption of all government-owned class A stock.

**Commerce and
Housing Credit**

**Failed Thrifts:
No Compelling Evidence of
a Need for the Federal
Asset Disposition
Association**

GAO/GGD-89-26, Dec. 13.

Questions have been raised concerning the appropriateness and the legality of the Federal Asset Disposition Association. FADA was created by the Federal Home Loan Bank Board in 1985 to assist the Federal Savings and Loan Insurance Corporation in the management and disposition of acquired assets. GAO found (1) that FADA was illegally established as a federally chartered savings and loan association and (2) no compelling evidence that FADA is essential to FSLIC's management and disposition of

acquired assets. FSLIC's combined use of other private sector asset management firms, federal employees in its headquarters and regions, and employees in its receiverships who are handling assets could be increased to provide the services now done under contracts with FADA.

**Enterprise Zones:
Lessons From the
Maryland Experience**

GAO/PEMD-89-2, Dec. 15.

Enterprise zones are economically distressed areas designated for preferential governmental treatment to promote investment and job creation by private industry. GAO's study focused on the Maryland program because of its similarity to major proposed federal legislation. The results of the study showed that (1) employment increases were found but they could not be attributed to the enterprise zone program; therefore, neither local program cost offsets nor reductions in welfare dependence among workers could be expected to occur and (2) issues such as market access and community characteristics rather than enterprise zone incentives influence employers when locating their businesses. While some lessons for a federal program can be drawn, the findings cannot be generalized beyond enterprise zone programs similar to the ones studied. GAO suggests that a modest demonstration program might be more useful than the large-scale efforts proposed in several bills.

**Financial Audit:
Federal Asset Disposition
Association's 1987
Financial Statements**

GAO/AFMD-89-16, Dec. 29.

The Federal Asset Disposition Association is a wholly-owned subsidiary of the Federal Savings and Loan Insurance Corporation, and its purpose is to manage and dispose of real estate assets of financially troubled savings and loan associations in the FSLIC system. Peat Marwick Main & Co., an independent certified public accounting firm, audited FADA's 1987 financial statements in accordance with the Federal Home Loan Bank Board regulations. In the auditor's opinion, subject to the uncertainty of the reasonableness of the asset management fee income, FADA's statements are fairly presented.

**Financial Audit:
Federal Home Loan Banks'
1987 Financial Statements**

GAO/AFMD-89-28, Dec. 30.

Deloitte Haskins and Sells, an independent certified public accounting firm, audited each of the 12 Federal Home Loan Banks and the combined financial statements of the banks. In the auditor's opinions, each bank's statements and combined statements are fairly presented. The

Federal Home Loan Bank Act established 12 Federal Home Loan Banks to promote home ownership by serving as lending facilities for member savings institutions. The banks raise funds for this purpose primarily through the sale of consolidated debt instruments, repayment of which is the obligation of all of the banks.

Transportation

Air Traffic Control: FAA Should Define the Optimal Advanced Automation System Alternative

GAO/IMTEC-89-5, Nov. 30.

Flaws were found in the methodology the Federal Aviation Administration used to conduct the benefit/cost study of acquiring the Advanced Automation System. FAA did not fully analyze or properly compare a full range of alternatives to its preferred system. Its plan to invest about \$1 billion for building expansion, radars, and communication links to prepare for consolidation would not be prudent because this investment could reduce its flexibility to implement a nonconsolidation alternative. FAA has not successfully controlled AAS costs during the design phase, and additional cost increases could occur. Although the agency has asked the contractors to develop information to allow appropriate trade-offs to control cost increases, it is unwilling to establish a design-to-cost goal.

Coast Guard: Better Information Needed Before Deciding on Facility Closings

GAO/RCED-89-48, Nov. 29.

Cost-effectiveness information required by Coast Guard policies was not used, was seriously out of date, or was not maintained when it made the decision to close the New York and New Orleans Vessel Traffic Service facilities. Coast Guard estimates of annual personnel savings from closing the VTSS was understated by a total of \$228,000. Its selection for closure was based upon its concern for reducing operating expenses as fast as possible rather than on the effectiveness of these VTSS in achieving the program's primary objective of enhancing vessel safety.

Aviation Security: FAA's Assessments of Foreign Airports

GAO/RCED-89-45, Dec. 7.

The International Security and Development Cooperation Act of 1985 established requirements for the Federal Aviation Administration to

assess security at foreign airports served by U.S. air carriers and from which foreign air carriers served the U.S. using, as a minimum, the security standards administered by the International Civil Aviation Organization. FAA inspectors determine security measures used at foreign airports through on-site interviews and observations. While the agency has made significant progress in implementing the requirements of the act, FAA inspectors did not test the operation effectiveness of security systems or observe or evaluate the security test made by host country officials. FAA recognizes the importance of testing but believes it is inappropriate for its inspectors to make tests in foreign countries because of sovereignty concerns and the possibility of adversely affecting the agency's rapport with foreign security officials. FAA inspectors, working with host country officials, should include some analysis of testing to enhance the overall security assessment process.

Social Services

Food Stamps: Reasons for Nonparticipation

Acc. No. 137513 (GAO/PEMD-89-5BR), Dec. 8.

In both 1979 and 1986 slightly more than half of the households eligible for food stamps did not participate in the program because they did not think they were eligible. Also, approximately one third of the 50 percent who did not think they were eligible thought their assets or income were too high for the Food Stamp program. About two thirds of the eligible nonparticipants who thought they were eligible for benefits did not try to get food stamps. The reasons this group gave for not participating in the program were they (1) did not need the benefits and (2) were concern about the likely administrative "hassles."

Health

Federal Compensation: Recovery of Improper Health Benefits Charges Needed

Acc. No. 137542 (GAO/GGD-89-27), Dec. 13.

Aetna Life Insurance Company improperly charged about \$7.2 million to the Federal Employees Health Benefits Program for federal income taxes on Aetna's service charge (profit). The Federal Acquisition Regulations provides that federal income taxes are not an allowable cost. The

charge was found during GAO's review to determine the reasonableness of the administrative costs charged FEHBP by carriers basing their premiums on claims experience. The Office of Personnel Management needs to take action to recover these improper charges now rather than waiting until the next scheduled audit.

**AIDS Education:
Activities Aimed at the
General Public
Implemented Slowly**

GAO/HRD-89-21, Dec. 16.

Although the Center for Disease Control's budget for AIDS education increased significantly—from about \$17 million to \$210 million—between FY 1985 and 1988, its efforts to focus national attention on AIDS prevention were impaired by the slow implementation of key activities aimed at the general public. Events, such as early delays in nationwide household mailing of AIDS information, limited air time for public service announcements, and difficulty by the public in reaching the AIDS telephone hotline contributed to CDC's inability to reach and educate the American public.

**Hospital Construction:
Financial Information on
HUD's Section 242
Hospital Mortgage
Insurance Program**

Acc. No. 137605 (GAO/HRD-89-14), Dec. 22.

This report presents current financial information on the Department of Housing and Urban Development's Section 242 hospital mortgage program. The program insures loans for the construction and rehabilitation of hospitals and is administered as part of HUD's General Insurance Fund. As of August 1988, the program had an inventory of 160 insured mortgages, with unpaid principal of approximately \$4.5 billion.

**Occupational Safety and
Health:
Assuring Accuracy in
Employer Injury and
Illness Records**

GAO/HRD-89-23, Dec. 30.

Accurate injury and illness records are important for many reasons, such as use by Congress, researchers, the Occupational Safety and Health Administration, the Bureau of Labor Statistics, and other agencies to describe the nature and extent of occupational and safety and health problems. These records are also vital to employers and employees to help identify and correct safety and health problems in the workplace. GAO's review of studies of recordkeeping accuracy indicated possibly significant injury and illness underrecording and subsequent underreporting to BLS. Reasons for inaccurate recordkeeping are that employers may (1) deliberately underrecord injuries in response to

incentives such as OSHA inspection policies or employer safety competitions and (2) misunderstand what needs to be recorded. Also accurate recordkeeping is not a high priority for many employers. OSHA has revised its enforcement procedures in ways that should help improve the accuracy of employers' records and reduce the negative impact of inaccuracies. It has increased the size of fines for violating its record-keeping policy and modified its records-review procedures.

Income Security

Medicare: Physician Incentive Payments by Prepaid Health Plans Could Lower Quality of Care

Acc. No. 137532 (GAO/HRD-89-29), Dec. 12.

Concerns have been raised that the incentive payments made to physicians participating in Medicare may be so strong that they represent a potential threat to the quality of care by encouraging inappropriate reductions in service. Specifically, incentive features most likely to adversely affect quality are (1) shifting health maintenance organizations risk to physicians, (2) distributing incentives based on individual physician cost performance, (3) paying a percentage of HMO savings on patients, and (4) measuring physician cost performance over a short time period. Strong HMO management controls are needed to identify and prevent physician behavior that adversely affects quality of care.

Medicare: An Assessment of HCFA's 1988 Hospital Mortality Analyses

Acc. No. 137577 (GAO/PEMD-89-11BR), Dec. 13.

The Health Care Financing Administration has made several refinements in its analytical approach to hospital mortality analyses. It has (1) modified the composition of the 17 broad categories used to characterize the principal diagnosis of all Medicare patients, (2) reported outcomes of each hospital over several years rather than a single year, and (3) initiated studies to validate its analytical approach. However, its current analytical approach and associated validation efforts still have several limitations that diminish its ability to ensure the validity of its analyses. Until HCFA expands on its current efforts to validate its approach and to examine the effect of data deficiencies, it will be difficult to assess just how valid these analyses are in terms of the actual proportion of hospitals that are correctly identified as having, or not having, quality of care problems.

Veterans Affairs

Veterans' Benefits: Need to Update Medical Criteria Used in VA's Disability Rating Schedule

GAO/HRD-89-28, Dec. 29.

The Veterans Administration cannot ensure that veterans are given accurate and uniform disability ratings because the rating schedule has not been adjusted to incorporate the results of many recent medical advances. Without current medical criteria, it is difficult for rating specialists to classify a disease or injury correctly. As a result veterans may be assigned inconsistent ratings and some veterans may be undercompensated or overcompensated. To better ensure the rating schedule serves as a practical tool in assigning uniform disability rates, the VA should (1) prepare a plan for a comprehensive review of the rating schedule and based on the results revise medical criteria accordingly and (2) implement a procedure for systematically reviewing the rating schedule to keep it updated.

Administration of Justice

Border Management: Options for Improved Border Control Management

GAO/GGD-89-8BR, Nov. 21.

Border control, in a broad sense, consists of the federal government's activities for controlling the movement of people, conveyances, and goods into and out of the country. One problem that has emerged over the past decade and half is that border control programs are fragmented and duplicative, and interagency rivalries, conflicts, and jurisdictional disputes are obstacles to effective border control. Options, such as the development of a comprehensive border management policy and the placement of responsibility for primary inspection functions into one agency, have been suggested as a way of reforming management of the border.

General Government

Civil Service Reform: Development of 1978 Civil Service Reform Proposals

Acc. No. 137495 (GAO/GGD-89-18), Nov. 1988.

“Civil Service Reform Act: A Tenth Anniversary Retrospective” was the title of a seminar held jointly by GAO and the Senate Subcommittee on Federal Services, Post Office and Civil Service, Committee on Governmental Affairs. The seminar was organized around the issues addressed by the various task forces of President Carter’s 1977 Personnel Management Project. The purpose was to examine the early thought that went into the reform of the Civil Service to help the Committee evaluate where the act succeeded and determine whether further reforms are needed.

Financial Audit: House Stationery Revolving Fund Statements—June 30, 1988 and 1987

Acc. No. 137548 (GAO/AFMD-89-10), Dec. 14.

The Office Supply Service furnishes House Members, committees, departments, and officers with stationery and supplies. Operations are financed from the House of Representatives Stationery Revolving Fund and appropriations to the Clerk of the House and the Architect of the Capitol. Total net income for 1988 was \$237,754; for 1987 it was \$189,873.

Revolving Funds: Office of the Attending Physician Revolving Fund Can Be Terminated

Acc. No. 137576 (GAO/AFMD-89-29), Dec. 21.

GAO identified the amount of funds necessary to pay all the Office of the Attending Physician Revolving Fund debts as of January 31, 1988, is \$2,242. As of January 31, 1988, the Fund has assets of \$2,718; liabilities of \$2,158; and government equity of \$560. It would be feasible for Congress to enact legislation that (1) terminates the Attending Physician Revolving Fund and (2) provides for the future treatment of the program receipts.

**Tax Administration:
IRS' Combined Annual
Wage Reporting
Reconciliation Program**

Acc. No. 137551 (GAO/GGD-89-21), Dec. 14.

The Internal Revenue Service's Combined Annual Wage Reporting reconciliation program attempts to reconcile the total annual wage and tax information submitted by employers to the Social Security Administration and IRS and to determine the reasons for any discrepancies. GAO's review of the CAWR program showed that IRS (1) identified annually about 500,000 discrepancies with potential tax implications between 1981 and 1984; (2) assessed employers additional taxes, interest, and penalties of \$2.7 billion between 1981 and 1984; and (3) spends about \$7 million a year to resolve half of the discrepancy cases with tax implications resulting in an average of almost \$125 million a year in additional taxes, interest, and penalties being collected.

**Tax Administration:
IRS' Data on Its
Investigations of Employee
Misconduct**

GAO/GGD-89-13, Nov. 18.

GAO was asked to analyze data received from the Internal Revenue Service on its investigations of alleged misconduct by its employees. IRS extracted the data from the Internal Security Management Information System. GAO identified extensive coding errors due to invalid and missing codes. Invalid codes are those that are reflected in the ISMIS data but not listed among Internal Security's prescribed codes, and missing codes involve those characteristics that should have been, but were not, coded in the ISMIS data. Internal Security officials said that the data contain coding errors because ISMIS does not contain sufficient data validity checks. They also said that they plan to replace the system with one that has better controls, i.e., data validity checks that reject invalid or incomplete data.

**Tax Policy:
Deducting Interest on
Funds Borrowed to
Purchase or Carry Tax-
Exempt Bonds**

Acc. No. 137574 (GAO/GGD-89-14), Dec. 19.

Internal Revenue Code section 265 disallows the deduction of interest on money borrowed to purchase or carry tax-exempt securities. However, Congress has established different rules regarding the application of the section to individuals and nonfinancial corporations and to financial institutions. GAO found that (1) the section is difficult to administer, because IRS presently has no mechanism with which it can identify taxpayers who deduct interest expense and own tax-exempt security and readily verify the amount reported; (2) the extent of taxpayer compliance is not known; and (3) IRS agents said the mechanical disallowance

rule, which allows a proportion of total interest expense to be automatically allocated to tax-exempt securities, was generally easier to administer.

**Customs Automation:
Observations on Selected
Automated Commercial
System Modules**

Acc. No. 137573 (GAO/IMTEC-89-4BR), Dec. 21.

This briefing report discusses three aspects of the Customs Services' Automated Commercial System that is being developed to automate all of Customs' commercial operations into one integrated system. GAO made observations on three ACS modules—the automated broker interface, the automated manifest system, and cargo selectivity. The automated broker module permits brokers to electronically file entry data with Customs before cargo arrives, and electronically file entry summary data after the cargo has been released. The automated manifest system is intended to allow the exchange of information concerning cargo shipments between Customs and carriers. Cargo selectivity indicates what type of examination Customs inspectors should perform on imports. GAO noted two instances where the cargo selectivity module's history files were incomplete or inaccurate as well as apparent weaknesses in Customs' efforts to train personnel to use this and other ACS modules.

**Financial Audit:
National Credit Union
Administration's FY 1987
and 1986 Financial
Statements**

Acc. No. 137578 (GAO/AFMD-89-13), Dec. 21.

GAO reviewed the audit done by Price Waterhouse, an independent certified public accounting firm, of the financial statements of the National Credit Union Administration for FY 1987 and 1987 and found that the statements are fairly presented. The Administration regulates and insures federally chartered credit unions and insures state-chartered credit unions which apply and qualify for insurance.

**Financial Audit:
Attending Physician
Revolving Fund for the 16-
Month Period Ended
1-31-88**

Acc. No. 137603 (GAO/AFMD-89-11), Dec. 23.

The Attending Physician Revolving Fund is to account for the receipts and disbursements for (1) the purchase and sale of prescription drugs and (2) miscellaneous services provided by the Office of the Attending Physician. GAO found that the financial statements present fairly the financial position of the Fund. Total liabilities and government equity was \$2,718 as of January 31, 1988.

**Immigration:
Data Not Sufficient for
Proposed Legislation**

GAO/PEMD-89-8, Dec. 28.

The proposed Immigration Act of 1988 would require the Attorney General to submit to the President and Congress an annual report on the effect of immigration on the United States. These reports may become controversial because every 3 years they must discuss the need, if any, to revise the numerical limitations that the bill sets on annual immigration to the United States. GAO found that quantitative data relevant to a variety of impacts of immigration are available but are frequently not adequate for the purposes of the proposed bill's reporting requirements. Expanding information in some available data bases and developing additional data sources could fill in many gaps. However, to produce the strongest evidence concerning the impact of immigration generally would require longitudinal data sources or other similar methodologies that could suitably address cause-and-effect questions.

**FBI Internal Audit:
Opportunities for
Improvement**

GAO/GGD-89-9, Nov. 23.

The Federal Bureau of Investigation's Inspection Division has improved its inspections and program evaluations. The Office of Inspections has refocused its activities and now concentrates its efforts on the FBI's investigative programs, as well as various administrative matters, during its periodic inspections of headquarters divisions and field offices. Requirements for the staff selected for the Program Evaluations Units have been raised and most staff have advanced degrees. Although there have been improvements, the FBI could (1) improve its long-range planning of program evaluations through periodic assessment of the vulnerabilities of its operations, (2) require that individual audit programs include specific statistical audit procedures where appropriate that will support conclusions made as a result of audits, (3) establish a specific point in the evaluation process where a decision is made on whether or not continuation of the evaluation justifies the additional expenditures, and (4) develop and implement standards for preparing workpapers.

**Congressional
Testimony by GAO
Officials**

Status of Security Measures to Prevent Oil Flow Disruptions, by Keith O. Fultz, Resources, Community, and Economic Development Division, before the Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, Dec. 7. GAO/TCED-89-3. Acc. No. 137479.



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NATIONAL DEFENSE

☐ NATO-Warsaw Pact:
Assessment of the Conventional
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137553 (GAO/NSIAD-89-23, 23A,
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GAO/NSIAD-89-32FS, Nov. 30.

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☐ FBI Internal Audit:
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☐ Status of Security Measures to Prevent Oil Flow Disruptions, Dec. 7. GAO/T-RCED-89-3. Acc. No. 137479.

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